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ARAB STATES - ISRAEL: The Egyptian Government may be reassessing its position regarding peace negotiations. The sticking point is what it considers Israeli "stalling"--the same issue which earlier caused it to break off the disengagement talks.

On 5 December, Egyptian authorities notified the UNEF commander, General Siilasvuo, that Cairo has so far made no decision on the question of the resumption of talks at Kilometer 101. The Egyptian foreign minister also summoned the US and Soviet ambassadors to meet with him separately yesterday to discuss the continuing tension on the Suez front and the forthcoming Geneva peace conference.

Well-informed sources in Cairo said that unless the two superpowers adopt a firmer attitude toward Israel's "stalling attitude" at the military-level talks, it will be difficult for Egypt to attend a peace conference. These sources indicated that it is unlikely the Kilometer 101 talks will be resumed before Secretary Kissinger's visit to Cairo on 13 December. In addition, they would not discount the possibility that Egypt is seriously considering postponing the Geneva talks until Israel has met all the conditions of the six-point cease-fire agreement.

The People's Assembly is scheduled to meet in Cairo on 8 December to hear the government's draft policy statement on general Egyptian policy in the foreign and domestic fields for the next several years. This draft has been in the works for some months. The Assembly will also hear a statement by the War Ministry on the military situation. Informed sources had previously suggested that Egypt intended to "freeze" the situation pending the outcome of Secretary Kissinger's visit, to which they attach great importance.

Cairo's Al Ahram sounded a warning note yesterday about expectations for Secretary of State Kissinger's second visit. The commentary called into question the extent of US willingness to pressure

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Israel. It also challenged US definitions of a "reasonable peace," the return of "almost" all occupied territory, and a "complex" formula for Jerusalem, labeling the latter point incompatible with Security Council resolutions.

Al Ahram appeared to be interpreting the stalemate at Kilometer 101 as a failure by the Secretary of State to follow through on pledges made during his first visit to Cairo. Asserting that responsibility for the breakdown must be fixed before the Secretary returns, the paper concluded that the Arabs cannot trust US efforts to effect a settlement if the results of the second visit are no better than those of the first.

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According to press reports from Tel Aviv yesterday, the Israeli Army has not permitted correspondents or television crews to visit the cease-fire line for the past few days; future visits will be authorized only after formal application is made and approved.

A Soviet press officer in Cairo claimed recently that a few MIG-23s and MIG-25s are in Egypt with Soviet pilots to carry out reconnaissance missions.

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The Foxbat is a much better reconnaissance aircraft than the Flogger; the Israelis have only a marginal capability to down the Foxbat.

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Analysis of Egyptian claims to have ten Egyptian-made Zafir missiles housed in silos and manned by Egyptian crews

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indicates that the claims are not valid. There is no evidence of missile silos in Egypt, and such technology is currently beyond Egyptian capabilities. In the early 1960s, West German technicians helped the Egyptians' attempts to develop two single-stage liquid-fueled ballistic missiles, but neither of these ever became operational. There is no information available to substantiate the Egyptians' claim that French technicians have been working on the Zafir missile recently.

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USSR-FEDAYEEN: Yasir Arafat's cautious reception in Moscow last month suggests that the Soviets hope to exploit the Palestinian question but do not want the complex issue to disrupt movement toward a peace conference.

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The relatively cautious approach taken by Moscow probably reflects its unwillingness to get out in front of Arab governments on the Palestinian issue as well as the frustrations it has encountered in dealing with the fractious Palestinian movement. Ponomarev visited Iraq subsequent to his discussion with Arafat, possibly with the objective of trying to persuade Iraq to moderate its opposition to a Palestinian state and temper Baghdad's support for radical fedayeen elements who are opposing Arafat over this issue.

The Soviets probably see their interests served by support for the Palestinian movement, since this will give them increased leverage in the negotiations and a potential channel of influence in the Middle East.

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KOREA: Propaganda from both Korean capitals remains in low key, and the North-South Coordinating Committee meeting yesterday apparently passed in a businesslike manner. A detailed report on the meeting is not yet available, but Pyongyang expressed satisfaction that Seoul had removed former ROK CIA director Yi Hu-rak as its chief negotiator at the talks and implied that it now had a more positive attitude toward continuing the dialogue.

North Korean naval patrols continue along and below the Northern Limit Line. Yesterday's scheduled South Korean resupply run to the islands was canceled because of bad weather, but today's left as scheduled.

CANADA: Prime Minister Trudeau's minority government is facing political difficulties over its handling of energy problems.

The main opposition party, the Progressive Conservatives, will introduce a no-confidence motion on 10 December on the energy issue. The government is under attack for its plans to lift petroleum price ceilings next February and for its failure to consult with provincial governments before announcing both an export tax on crude oil and plans for building a Toronto-Montreal pipeline. The Liberal Party leadership is also being criticized for its optimistic estimates of petroleum shortfalls in the wake of Arab production cutbacks.

Recent opinion polls have led the Tories to believe a trend against the Liberals is setting in among the electorate. It is doubtful, however, that the Tories want elections in mid-winter. Their aim is probably to keep Trudeau's informal coalition under pressure until next February, when the new parliamentary session begins. Several no-confidence votes usually are introduced at the opening of a new session, and by that time the New Democrats, who hold the balance of power in Parliament, may have decided that it is no longer to their advantage to be associated with the government. The informal nature of the coalition often places the New Democrats in the paradoxical position of preserving the government on critical votes while denouncing it in parliamentary debate.

Energy policy has been an important political issue in Canada since last summer. The New Democrats have had a hand in shaping the government's views. The party's influence on government policy appears to be declining, however, while at the same time public criticism of the government's energy policy--or lack thereof--is growing. Many New Democratic MPs are unhappy with this situation, and party leader David Lewis will face a sharp debate when the parliamentary caucus meets prior to next week's no-confidence vote.

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Trudeau has already softened his stance on petroleum price ceilings--a central issue--and a compromise may be in the works. Nonetheless, significant differences remain, and the key question for Trudeau is not if but when the New Democrats will withdraw their support of the government. [REDACTED]

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ARGENTINA: President Peron is ordering strong measures to protect foreign companies and their personnel from terrorists, following a major US firm's threat to close down operations.

Peron mobilized national police to cope with violence after a left-wing Peronist group attempted to extort \$4 million from the Ford Motor Company by threatening to kill its employees if this demand was not met. The threat followed the assassination of a Ford executive in Cordoba last month and prompted the company to order all of its US personnel to leave the country. In a recent meeting with Ford officials, Peron assured them of his concern and said he was setting up a council at the cabinet level to coordinate the campaign against terrorism. (A Ford spokesman reportedly said last night that Ford plans to bring its people back eventually.)

Privately organized paramilitary groups reportedly have already moved against the People's Revolutionary Army (ERP) and leftist elements within Peronist Youth. These counterterrorist groups, consisting largely of retired military personnel, are said to have Peron's approval and allegedly will take orders from his wife, Maria Estela Martinez de Peron.

The recent terrorist actions against Ford, the largest multinational company in Argentina, may have been aimed at thwarting Peron's announced intention to attract more foreign investment. They could also signal a shift by the left from kidnappings to more violent methods in retaliation against government efforts to purge the Peronist movement of Marxist elements. [REDACTED]

ISRAEL - LATIN AMERICA: The Arab-Israeli war has delayed the delivery of Israeli jet aircraft recently purchased by El Salvador and is likely to impede Tel Aviv's aggressive arms-sales campaign in Latin America. In mid-1973, Israel concluded its largest sale of foreign aircraft, a several million dollar contract to provide El Salvador with 18 Ouragan jet fighters, three Fouga jet trainers, and several Arava Stol turboprop transports. One Fouga per month was to have been sent, beginning in November, but delivery has been postponed. The Ouragans, which were undergoing extensive overhaul, were scheduled to be supplied four per month starting in September 1974, but delivery probably has also been pushed back. The Israelis may be able to meet the 1975 delivery dates for the transports.

At the aerospace show in Sao Paulo in September, the Israelis displayed products of their aircraft industry--the Arava Stol, air traffic and control radar systems, and a small corporate jet liner. While little information is available on Latin American reaction to Israel's exhibit, the Central and South American states that have bought Israeli weapons and employed Israeli military experts and technicians in the past have been favorably impressed. As a result of the war, however, Israeli's arms industry will be forced to devote most of its resources to meeting domestic military needs. [REDACTED]

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SRI LANKA: Prime Minister Bandaranaike reportedly has decided to ease food austerity measures in certain urban areas in order to avert serious disturbances. The decision was reached Monday

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The government is planning to double the per capita free weekly rice ration in key urban areas to two pounds per week in an effort to defuse the tense situation. Colombo apparently has adequate rice stocks to meet this new commitment for the remainder of 1973. To offset the proposed increases in 1974, Sri Lanka will ask China for additional rice on credit terms during the upcoming barter trade negotiations in Peking later this month.

Mrs. Bandaranaike's personal campaign to alert the public to the serious food situation and to arouse popular support for increasing food production to achieve self-sufficiency initially blunted adverse public reaction to sharp ration cuts announced on 28 September. Since then, however, opposition forces have launched a campaign to discredit her policies, and public dissatisfaction has been growing. Concerned by the deteriorating situation, the government has placed all security forces on 'full alert. Although Mrs. Bandaranaike's decision should have a short-run palliative effect, tight grain supplies will continue at least until the major rice harvest next spring.

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Chile's Economic Recovery Program

The ruling junta in Chile is moving aggressively to rebuild the economy by adopting a harsh austerity program and instituting policies designed to return the country to a market economy. Implementation, however, has been hampered by disagreements within the government over how best to deal with the severe hardships imposed on most of the population, and the program could generate widespread unrest.

Initial Efforts

Faced with shortages aggravated by heavily subsidized prices, Santiago moved quickly after the coup on 11 September to remove price controls on all but 30 basic commodities. The Central Bank also devalued the escudo by some 60 percent and simplified the exchange rate system in an effort to curb import demand and ease pressures on Santiago's meager foreign exchange reserves. As a consequence of the devaluations and relaxed price controls, Chile's cost of living jumped sharply in October, bringing the inflation rate to about 450 percent for the first ten months of the year. Price rises during the last two months of 1973 probably will push inflation to over 750 percent for the year.

The elimination of price controls and adjustment of exchange rates caused the black market rate for escudos to plummet from 2,200 to the dollar to 950. While exchange rates changed and prices rose, the growth in the money supply was sharply curtailed, causing a relative scarcity of local currency and a liquidity crunch for businessmen. To finance business activities, holders of dollars are changing them into escudos at official rates in record volumes. Over \$14 million have been converted since mid-November, mostly to finance business operations.

Domestic Impact

Despite a healthy increase in the minimum wage, working-class consumers are finding it increasingly

difficult to afford even the barest necessities. Middle income groups are also being hit hard. These conditions have been worsened in many cases by large-scale dismissals of relatively unproductive and politically suspect employees hired under the Allende regime. An unemployment compensation program has been announced, but it has not been implemented because of a shortage of trained administrators and a lack of effective coordination. An extensive public works program is also under consideration.

The junta has attempted to enlist public support for the austerity program through a series of public jawboning sessions and repeated press conferences, all of them having the theme of highlighting the dismal Allende heritage and the consequent need for belt-tightening. Although business is showing some renewed confidence, consumers and labor appear to be less than enthusiastic about the junta's programs. No organized resistance to the junta or its programs has appeared, however.

Some leftist groups reportedly are planning to seize upon the wage-price squeeze to foment strikes and other violence, but the left's ability to mobilize the workers against the regime is questionable, because organizers and militants no longer have easy access to the factories, and the days of regular pay for demonstrating rather than working are over. There is a risk, however, of widespread unrest and spontaneous strikes if pressures on consumers and labor are not eased during the next six months.

External Economic Relations

Chile still faces balance-of-payments deficits in excess of \$250 million in both 1973 and 1974, even if debt repayments are completely rescheduled in both years. Unless next year's debt is rescheduled, the payments deficit could exceed \$1 billion. With the massive \$4 billion foreign debt hanging over Santiago's head, it will at best be several years before Chile's balance-of-payments position improves significantly.

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The junta has appointed Julio Philippe (foreign minister during the Alessandri administration) the chief negotiator on copper compensation.

Copper production has already increased more than 50 percent above last year's rate through better worker discipline, a 9-percent lengthening of the workweek, and improved mine management. Production will probably reach a record 750,000 tons next year, but shortages of spare parts, serviceable tractors, and trucks constitute a substantial constraint to further expansion of production.

Another major problem is how to increase agricultural production rapidly. Agricultural imports, the largest drain on foreign exchange, are likely to exceed \$500 million in 1974. The recent sharp increases in agricultural prices provided windfalls to farmers and merchants but will not significantly affect output until the 1974/75 harvest, since most crops are already planted and are well into the growing season. Chile is importing grain to ease domestic shortages and has received \$52 million in US credits for grain purchases. Continuing high world prices as well as adverse world reaction to the coup have compounded Santiago's problems in obtaining adequate grain supplies.

Chile also continues to face shortages of such critical items as spare parts, transportation equipment, aluminum, ferrous scrap, and petrochemicals for textile fiber production. The aluminum shortage resulted from a cutoff in supplies from Hungary and the USSR. Stocks of ferrous scrap are virtually exhausted, and Chile will require imports of over 40,000 tons next year. The US has granted hardship exemptions for the export of 7,000 tons during the remainder of 1973.

While the problems of adequate short-run supplies of raw materials and spare parts must be solved to boost production quickly, long-run growth will depend heavily on Chile's ability to attract

adequate foreign investment. Attraction of substantial new investment, in turn, will depend on the junta's ability to demonstrate good faith in the treatment of foreign equity as well as its ability to instill confidence in Chile's prospects for stable recovery and growth. A critical first step in this area is timely settlement of outstanding compensation claims emanating from the Allende nationalizations. The junta has stated that it will either return intervened firms to the private sector or, as in the case of the large copper mines, compensate the previous owners adequately. Some 88 firms, including five with US interests, are already in the process of reverting to their original owners.

The junta has succeeded in lining up sufficient foreign credits to enable it to purchase capital goods essential to the recovery of production. Private US and Canadian sources have granted nearly \$200 million in new short-term credits, \$215 million has been granted by Argentina, and about \$200 million by Brazil. Colombia is providing an additional \$15-\$20 million in private bank credits.

Prospects

The economic outlook for Chile is cautiously optimistic as the junta takes steps to correct the excesses of nearly three years of state socialism under the Allende regime. The programs are economically sound and offer a firm foundation for recovery and growth of the economy. The major policy conflicts within the government appear to center on the degree and timing of specific measures rather than problems of basic policy orientation. There have been disagreements within government circles as to how the copper compensation negotiations should be carried out and who should be in charge of them. By contrast, there is no disagreement that compensation should be paid or that the copper mines should stay nationalized. Another developing area of conflict is over the degree of austerity to be imposed and the timely introduction of measures to ease the impact on the poor.

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There is also maneuvering by various personalities and government agencies for hegemony in policy matters, including attempts by the navy to increase its influence in the junta at the army's expense. Thus, there is friction between the Committee of Advisers to the President of the Junta (COAP) and the National Planning Office (ODEPLAN), which is run by the navy. Reports of dissension within army circles over the degree of austerity of the junta's economic program have also surfaced.

In terms of senior economic advisers, Orlando Saenz, recently reassigned as ambassador to Japan, appears to have lost out to Raul Saez as chief economic adviser. Saez reportedly disagreed with the price policies initially followed, preferring continued controls on some 200 items versus the 30 now controlled. Such a move could have provided a price rise sufficient to stimulate production without the degree of consumer suffering under the present programs. Additional policy positions by Saez appear to have been somewhat at odds with proposals of the so-called technocrats--a group of young University of Chicago "school" economists who provided the junta's basic economic policy program right after the coup. The technocrats wanted an even more drastic devaluation of the escudo and desired to maintain dual exchange rates that would be revalued frequently to parallel inflation. The Central Bank, however, is moving toward a unified exchange rate of around 600 escudos per dollar.

The emerging dominance of Raul Saez is probably a positive factor, since the junta's austerity program must be tempered if political as well as economic recovery and stability are to be achieved. Meanwhile, Chile is preparing to settle outstanding compensation issues with the US. Timely resolution of these issues (including an early settlement with Cerro Corporation) would go far in improving international investor and creditor confidence in Chile.

FOR THE RECORD*

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UN-Cambodia: The General Assembly decided last night to suspend consideration of the Cambodian representation issue until next fall. This ends, at least for this year, Prince Sihanouk's challenge of the Lon Nol government's right to represent Cambodia at the UN. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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